

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Port Austin	County Huron
Fiscal Year End 2/28/06	Opinion Date 8/2/06	Date Audit Report Submitted to State 8/31/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Brining & Nartker, P.C.		Telephone Number 989-269-9909	
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		Zip 48413	
Authorizing CPA Signature <i>Brining &amp; Nartker, re. by: Douglas P. Brining CPA</i>		Printed Name Douglas P. Brining, C.P.A.	License Number 08283

**VILLAGE OF PORT AUSTIN  
PORT AUSTIN, MICHIGAN**

**FINANCIAL REPORT  
FEBRUARY 28, 2006**

VILLAGE OF PORT AUSTIN, MICHIGAN

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## INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of Port Austin , Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Port Austin , Huron County, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Village of Port Austin , Huron County, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not prepared their discussion and analysis information for the Village of Port Austin , Huron County, Michigan. This discussion is required by U.S. generally accepted accounting principles as supplemental information.

In our opinion, except for the omission of management's discussion and analysis as discussed in the previous paragraph, which results in an incomplete presentation, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Port Austin , Huron County, Michigan as of February 28, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 16 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Port Austin , Huron County, Michigan's basic financial statements. The accompanying additional information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRINING & NARTKER, P.C.  
Certified Public Accountants

August 2, 2006

## **BASIC FINANCIAL STATEMENTS**

**VILLAGE OF PORT AUSTIN, MICHIGAN  
STATEMENT OF NET ASSETS  
FEBRUARY 28, 2006**

	<u>PRIMARY GOVERNMENT</u>	
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>COMPONENT UNIT</u>
<b>ASSETS:</b>		
Current assets:		
Cash	\$ 740,541	\$ 2,921
Prepaid expenditures	8,489	-
Accounts receivable - trash billing	9,640	-
Property taxes receivable	-	55,346
Capital assets - net of accumulated depreciation	301,400	1,009,050
<b>TOTAL ASSETS</b>	<u>1,060,070</u>	<u>1,067,317</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	4,511	1,735
Accrued payroll taxes	3,281	-
Accrued pension	410	-
Due to Port Austin Area Sewer and Water Authority	6,413	-
Current maturities of long-term debt	-	18,449
Noncurrent liabilities:		
Noncurrent portion of long-term debt	-	194,660
Accumulated compensated absences	13,786	
<b>TOTAL LIABILITIES</b>	<u>28,401</u>	<u>214,844</u>
<b>NET ASSETS:</b>		
Investment in capital assets net of related debt	301,400	795,941
Restricted for Streets	404,722	-
Unrestricted	325,547	56,532
<b>TOTAL NET ASSETS</b>	<u>\$ 1,031,669</u>	<u>\$ 852,473</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF PORT AUSTIN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	TOTAL	COMPONENT UNIT
				PRIMARY GOVERNMENT	
PRIMARY GOVERNMENT					
Governmental activities					
Legislative	\$ 11,630	\$ -	\$ -	\$ (11,630)	\$ -
General government	70,989	57,563	4,214	(9,212)	-
Public buildings and grants	96,214	-	-	(96,214)	-
Public safety	74,732	-	7,030	(67,702)	-
Public works	92,211	67,645	-	(24,566)	-
Recreation and culture	26,523	6,821	-	(19,702)	-
Other	50,388	-	-	(50,388)	-
Equipment	17,312	-	-	(17,312)	-
Streets	94,571	-	69,232	(25,339)	-
Interest on long-term debt	-	-	-	-	(11,038)
Total primary government	<u>\$ 534,570</u>	<u>\$ 132,029</u>	<u>\$ 80,476</u>	<u>(322,065)</u>	<u>(11,038)</u>
COMPONENT UNIT					
Downtown Development Authority					<u>(59,680)</u>
GENERAL REVENUES					
Property taxes				350,516	110,715
State sources				62,070	-
Donations				-	21,000
Investment earnings				4,777	11
Miscellaneous				965	-
Net transfers				11,000	(11,000)
SPECIAL ITEM:					
Insurance Proceeds				11,647	-
TOTAL GENERAL REVENUES AND SPECIAL ITEM				<u>440,975</u>	<u>120,726</u>
CHANGE IN NET ASSETS				<u>118,910</u>	<u>50,008</u>
NET ASSETS - BEGINNING OF YEAR				912,759	802,465
NET ASSETS - END OF YEAR				<u>\$ 1,031,669</u>	<u>\$ 852,473</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF PORT AUSTIN, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FEBRUARY 28, 2006**

		<u>SPECIAL REVENUE FUNDS</u>			
	<u>GENERAL FUND</u>	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>					
Cash	\$ 330,210	\$227,050	\$ 183,281	\$ -	\$ 740,541
Due from other funds	5,609	-	-	-	5,609
Prepaid expenditures	8,489	-	-	-	8,489
Accounts receivable - trash billing	9,640	-	-	-	9,640
<b>TOTAL ASSETS</b>	<b><u>\$353,948</u></b>	<b><u>\$227,050</u></b>	<b><u>\$183,281</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 764,279</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 4,511	\$ -	\$ -	\$ -	\$ 4,511
Accrued payroll taxes	3,281	-	-	-	3,281
Accrued pension	410	-	-	-	410
Due to other funds	-	2,697	2,912	-	5,609
Due to Port Austin Area Sewer and Water Authority	6,413	-	-	-	6,413
<b>TOTAL LIABILITIES</b>	<b><u>14,615</u></b>	<b><u>2,697</u></b>	<b><u>2,912</u></b>	<b><u>-</u></b>	<b><u>20,224</u></b>
<b>FUND BALANCE:</b>					
Unreserved	339,333	224,353	180,369	-	744,055
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$353,948</u></b>	<b><u>\$227,050</u></b>	<b><u>\$183,281</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 764,279</u></b>

**VILLAGE OF PORT AUSTIN, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FEBRUARY 28, 2006**

Total governmental fund balances	\$ 744,055
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	301,400
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(13,786)
Net assets of governmental activities	<u>\$ 1,031,669</u>

The accompany notes are an integral part of the financial statements.



**VILLAGE OF PORT AUSTIN, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

		<u>SPECIAL REVENUE FUNDS</u>			
	<u>GENERAL FUND</u>	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:					
Taxes	\$ 263,132	\$ 43,692	\$ 43,692	\$ -	\$ 350,516
Intergovernmental revenue	64,084	47,316	18,994	-	130,394
State grants	-	2,922	-	-	2,922
Charges for services	120,921	-	-	-	120,921
Interest and rentals	8,326	912	1,628	-	10,866
Other	26,861	-	-	-	26,861
<b>TOTAL REVENUES</b>	<b><u>483,324</u></b>	<b><u>94,842</u></b>	<b><u>64,314</u></b>	<b><u>-</u></b>	<b><u>642,480</u></b>
EXPENDITURES:					
Current:					
Legislative	11,630	-	-	-	11,630
General government	64,349	-	-	-	64,349
Public buildings and grounds	96,214	-	-	-	96,214
Public safety	65,626	-	-	-	65,626
Public works	84,675	-	-	-	84,675
Recreation	25,878	-	-	-	25,878
Equipment	16,031	-	-	-	16,031
Other	50,388	-	-	-	50,388
Streets		26,117	68,454	-	94,571
Debt Service:					
Principal	-	-	-	60,042	60,042
Interest	-	-	-	11,038	11,038
<b>TOTAL EXPENDITURES</b>	<b><u>414,791</u></b>	<b><u>26,117</u></b>	<b><u>68,454</u></b>	<b><u>71,080</u></b>	<b><u>580,442</u></b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b><u>68,533</u></b>	<b><u>68,725</u></b>	<b><u>(4,140)</u></b>	<b><u>(71,080)</u></b>	<b><u>62,038</u></b>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	11,000	-	10,027	71,080	92,107
Operating transfers out	-	(10,027)	-	-	(10,027)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>11,000</u></b>	<b><u>(10,027)</u></b>	<b><u>10,027</u></b>	<b><u>71,080</u></b>	<b><u>82,080</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b><u>79,533</u></b>	<b><u>58,698</u></b>	<b><u>5,887</u></b>	<b><u>-</u></b>	<b><u>144,118</u></b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>259,800</b>	<b>165,655</b>	<b>174,482</b>	<b>-</b>	<b>599,937</b>
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 339,333</u></b>	<b><u>\$ 224,353</u></b>	<b><u>\$ 180,369</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 744,055</u></b>

**VILLAGE OF PORT AUSTIN, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

Total net change in fund balances - governmental funds	\$ 144,118
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(22,817)
Increase in accumulated compensated absences is recorded when earned in the statement of activities.	(2,391)
Change in net assets of governmental activities.	<u>\$ 118,910</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Village of Port Austin, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village.

**Reporting Entity**

The Village is located in Huron County, Michigan and operates under a seven member elected Council. The Village provides services to the residents as authorized by its charter. These services include public safety (police), highways and streets, parks and recreation, public improvements, planning and zoning, and general administration services.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB No. 39, the definition of the reporting entity is based primarily on the premise of financial accountability. The Village of Port Austin is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

The Village formed a Downtown Development Authority on January 25, 1999. The purpose of the D.D.A. is to develop, finance and maintain property located in a designated downtown area. Captured tax increases have been recorded in the D.D.A. which is reported as a discretely presented component unit.

The Village is responsible for appointing two members to the Port Austin Area Sewer and Water Authority, but the Village's accountability for this organization does not extend beyond making the appointments. The Village does not have a voting majority on the Port Austin Area Sewer and Water Authority and the Authority does not impose specific financial burden upon or provide specific financial benefits to the Village. Therefore, the Port Austin Area Sewer and Water Authority is not presented as a component unit of the Village and the Village does not have an equity interest in the Authority.

As is discussed in Note 9, the Village entered into a water supply system management contract with the Port Austin Area Sewer and Water Authority, effective March 1, 1997, giving them management responsibility for 40 years. The Water Systems Enterprise Fund has been reported upon in the Port Austin Area Sewer and Water Authority.

**Accounting Estimates**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component unit for which the Village is financially accountable.

(Continued)

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Those revenues susceptible to accrual are licenses and interest revenue. Charges for services, fine, and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund and Local Street Fund are used to account for the resources of state gas and weight tax revenues that are restricted for use on major streets and local streets, respectively.

The Debt Service Fund is used to account for the accumulation of resources for the part of principal, interest, and related costs of general long-term debt.

**Property Taxes**

Properties are assessed as of June 30, and the related property taxes become a lien on June 1 of the following year. These taxes are due on September 14 after which they are added to the County tax roll. The delinquent real property taxes of the Village are purchased by the County of Huron. The County sells tax notes, the proceeds of which are used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year. Delinquent personal property taxes are not paid by the County revolving tax fund and will be remitted to the Village as collection occurs.

(Continued)

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide statement of net assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are being depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	20 years
Irrigation equipment	30 years
Vehicles	5 to 15 years
Office equipment	5 to 10 years

Accumulated Compensated Absences

Under agreements with the Village, certain employees are allowed to accumulate sick leave for subsequent use or for payment upon termination. All sick leave is accrued when incurred in the government-wide financial statements. Governmental funds record the vested sick leave as an expenditure of the current year to the extent it is paid during the year. The liability has been computed based on pay rates in effect as of February 28, 2006.

Budgets

Annual budgets are approved prior to the beginning of the fiscal year and are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The Village does not utilize encumbrance accounting.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – BUDGET VIOLATIONS:**

P.A. 621 of 1978, section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

(Continued)

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – BUDGET VIOLATIONS:** (Continued)

During the year ended February 28, 2006, the Village incurred expenditures in excess of the amounts appropriated in the budgetary funds, as follows:

<u>FUND</u>	<u>AMOUNT APPROPRIATED</u>	<u>AMOUNT OF EXPENDITURES</u>	<u>BUDGET VARIANCE</u>
GENERAL FUND:			
Public buildings and grounds	\$ 90,777	\$ 96,214	\$ 5,437
Public Safety	\$ 65,335	\$ 65,626	\$ 291
Public works	\$ 84,280	\$ 84,675	\$ 395
MAJOR STREET FUND:			
Operating transfers out	\$ 9,500	\$ 10,027	\$ 527
DEBT SERVICE FUND:			
Principal	\$ -	\$ 60,042	\$ 60,042
Interest	\$ -	\$ 11,038	\$ 11,038

**NOTE 3 – DEPOSITS AND INVESTMENTS:**

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes a local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Village's deposits are in accordance with statutory authority.

**Custodial Credit Risk of Bank Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Village's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the Village had \$639,426 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 4 – CHANGES IN CAPITAL ASSETS:**

The following is a summary of the changes in capital assets:

	BALANCE MARCH 1, <u>2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	BALANCE FEBRUARY 28, <u>2006</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
Primary Government:				
Capital Assets Not Being Depreciated				
Land	\$ 13,902	\$ -	\$ -	\$ 13,902
Capital Assets Being Depreciated				
Buildings and improvements	495,531	-	-	495,531
Equipment	339,395	-	-	339,395
	<u>834,926</u>	<u>-</u>	<u>-</u>	<u>834,926</u>
Less: Accumulated Depreciation				
Buildings	234,814	10,448	-	245,262
Equipment	289,797	12,369	-	302,166
	<u>524,611</u>	<u>22,817</u>	<u>-</u>	<u>547,428</u>
Net Capital Assets being Depreciated	<u>310,315</u>	<u>(22,817)</u>	<u>-</u>	<u>287,498</u>
Net Capital Assets - Primary Government	<u>\$ 324,217</u>	<u>\$ (22,817)</u>	<u>\$ -</u>	<u>\$ 301,400</u>
Component Unit:				
Capital Assets Being Depreciated				
Equipment	\$ 71,824	\$ -	\$ -	71,824
Land improvements	1,026,783	45,065	-	1,071,848
	<u>1,098,607</u>	<u>45,065</u>	<u>-</u>	<u>1,143,672</u>
Less: Accumulated Depreciation				
Equipment	5,221	3,816	-	9,037
Land improvements	74,409	51,176	-	125,585
	<u>79,630</u>	<u>54,992</u>	<u>-</u>	<u>134,622</u>
Net Capital Assets being Depreciated	<u>1,018,977</u>	<u>(9,927)</u>	<u>-</u>	<u>1,009,050</u>
Net Capital Assets - Component Unit	<u>\$ 1,018,977</u>	<u>\$ (9,927)</u>	<u>\$ -</u>	<u>\$ 1,009,050</u>

(Continued)

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 4 – CHANGES IN CAPITAL ASSETS:** (Continued)

Depreciation expense was charged to programs of the Village as follows:

Governmental Activities:	
General Government	\$ 6,284
Public Safety	8,074
Public Works	6,532
Recreation and Culture	646
Equipment	1,281
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 22,817</u></u>
 Component Unit:	
Downtown Development Authority	 <u><u>\$ 54,992</u></u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

The composition of interfund balances in the fund-level financial statements is as follows:

	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General Fund:		
Major Street Fund	\$ 2,697	\$ -
Local Street Fund	2,912	-
	<u><u>\$ 5,609</u></u>	<u><u>\$ -</u></u>
 Major Street Fund:		
General Fund	<u><u>\$ -</u></u>	<u><u>\$ 2,697</u></u>
 Local Street Fund:		
General Fund	<u><u>\$ -</u></u>	<u><u>\$ 2,912</u></u>

The receivables from the Street Funds result from a time lag between when the expenditures were incurred and the transfers made.

Interfund transfers for the year ended February 28, 2006 consisted of the following:

<u>FUND TRANSFERRED FROM</u>	<u>FUND TRANSFERRED TO</u>	<u>AMOUNT</u>
Major street	Local Street	\$ 10,027
Component Unit	General Fund	\$ 11,000
Component Unit	Debt Service Fund	\$ 71,080

The Major Street Fund transferred 25% of Act 51 funds to the Local Street Fund. The transfer from the Component Unit to the General Fund was for streetlight electricity. The transfer from the Component Unit to the Debt Service Fund was used to pay principal and interest due on long-term debt.

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 6 – LONG-TERM DEBT:**

The following is a summary of changes in long-term debt for the year ended February 28, 2006:

	BALANCE MARCH 1, <u>2005</u>	<u>INCREASES</u>	<u>DECREASES</u>	BALANCE FEBRUARY 28, <u>2006</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
Accumulated compensated absences	11,395	2,391		13,786
	<u>\$ 11,395</u>	<u>\$ 2,391</u>	<u>\$ -</u>	<u>\$ 13,786</u>
<b>COMPONENT UNIT:</b>				
5% - Port Austin State Bank for gymnasium purchase, payable in annual installments of \$9,241 starting November 30, 2001 with a balloon payment of \$44,426 on November 30, 2005.	\$ 42,291	\$ -	\$ 42,291	\$ -
4% - Port Austin State Bank for streetscape project, payable in monthly installments of \$2,219 starting January 13, 2003 with a balloon payment of \$209,180 due on December 13, 2007.	230,860	-	17,751	213,109
	<u>\$ 273,151</u>	<u>\$ -</u>	<u>\$ 60,042</u>	<u>\$ 213,109</u>

The annual debt service requirements to maturity for the financing with Port Austin State Bank is as follows at February 28:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 18,449	\$ 8,185	\$ 26,634
2008	194,660	6,224	200,884
	<u>\$ 213,109</u>	<u>\$ 14,409</u>	<u>\$ 227,518</u>

Interest expense for the year ended February 28, 2006 was \$11,038.



**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 7 – DEFINED BENEFIT PENSION PLAN:**

Plan Description

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is a participant in the Municipal Employees Retirement System of Michigan (MERS), which is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experience rated. MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 447 N. Canal Road, Lansing, MI 48917 or by calling 1-800-767-6377.

Funding Policy

Employees are required to contribute 4% of their annual earnings to the System. The Village is required to contribute amounts necessary to fund the System using sound actuarial methods; the rate for 2005 was 4.82%.

Annual Pension Cost

For the year ended February 28, 2006, the Village's annual pension cost of \$7,041 was equal to their required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) an investment yield rate of 8%, and (b) projected salary increases of 4.5% per year. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis.

Trend Information

YEAR ENDING	ANNUAL REQUIRED CONTRIBUTION *(ARC)	PERCENTAGE OF ARC CONTRIBUTED	NET PENSION OBLIGATION
2/28/2003	\$ -	100%	\$ -
2/28/2004	\$ 6,396	100%	\$ -
2/28/2005	\$ 6,708	100%	\$ -

\*Based on valuation payroll. Actual contributions will be based on actual payroll and will be different from the above amounts (usually higher).

**NOTE 8 – CONTINGENT LIABILITIES:**

The Village has elected to be treated as a reimbursing employer for unemployment compensation purposes. Any unemployment benefits paid to Village employees by the Michigan unemployment fund must be reimbursed by the Village on a dollar for dollar basis. The contingent liability for unemployment benefits is not recognized in the accompanying financial statements. The expense is recognized at the time the Village becomes liable to the State of Michigan for unemployment benefits paid. For the year ended February 28, 2006, \$29 was paid in unemployment benefits.

**VILLAGE OF PORT AUSTIN, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

**NOTE 9 - WATER SUPPLY SYSTEM MANAGEMENT CONTRACT:**

Effective March 1, 1997 the Port Austin Area Sewer and Water Authority entered into a water supply system management contract with the Village of Port Austin and the Township of Port Austin. Major elements of the agreement are as follows:

- The Authority will manage, operate, maintain and administer the water system for the Village and the Township and will comply with all requirements of the Rural Economic and Community Development Agency of the Department of Agriculture of the United States relative to outstanding Village bonds.
- Rates charged to customers will be recommended by the Authority and adopted by ordinance in each local unit.
- The Authority will prepare the annual budget.
- The Authority will prepare an annual report of its management of the water system and have an annual audited financial report.
- The local units will hold legal title to the system for assets transferred at the onset of the agreement.
- The term of the agreement is 40 years.

**NOTE 10 - JOINT VENTURE:**

Pursuant to an intergovernmental agreement dated May 14, 1990 between the Village and Port Austin Township, fire protection service is provided by the Port Austin Fire Department. The Township levies millage to fund operations of the Fire Department. In the event that the Fire Department is dissolved, a minimum of 50% of the assets and equipment will be returned to the Village. Separate financial statements for the joint venture are available from the Port Austin Fire Department. As of March 31, 2005, the total fund balance was \$218,440; therefore, the Village's equity was \$109,220.

**NOTE 11 - RISK MANAGEMENT:**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Village participates in the Michigan Municipal Liability and Property Pool for claims related to property loss, natural disasters, general liability, errors and omissions and auto liability.

**REQUIRED SUPPLEMENTARY INFORMATION**

**VILLAGE OF PORT AUSTIN, MICHIGAN  
PENSION PLAN DATA  
FEBRUARY 28, 2006**

**Schedule of Funding Progress**

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/93	\$ 96,586	\$ 100,075	\$ 3,489	97%	\$ 125,288	3%
12/31/94	\$ 119,292	\$ 123,124	\$ 3,832	97%	\$ 174,924	2%
12/31/95	\$ 147,505	\$ 140,471	\$ (7,034)	105%	\$ 170,455	0%
12/31/96	\$ 156,778	\$ 120,876	\$ (35,902)	130%	\$ 72,398	0%
12/31/97	\$ 150,061	\$ 119,559	\$ (30,502)	126%	\$ 43,817	0%
12/31/98	\$ 166,476	\$ 101,141	\$ (65,335)	165%	\$ 80,290	0%
12/31/99	\$ 187,409	\$ 156,022	\$ (31,387)	120%	\$ 127,059	0%
12/31/00	\$ 202,015	\$ 171,891	\$ (30,124)	118%	\$ 123,686	0%
12/31/01	\$ 210,523	\$ 180,232	\$ (30,291)	117%	\$ 139,943	0%
12/31/02	\$ 216,915	\$ 222,448	\$ 5,533	98%	\$ 142,409	4%
12/31/03	\$ 232,991	\$ 248,640	\$ 15,649	94%	\$ 139,169	11%

**VILLAGE OF PORT AUSTIN, MICHIGAN  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes:				
Current property taxes	\$ 256,000	\$ 262,900	\$ 262,939	\$ 39
Mobile home taxes	150	175	193	18
Total taxes	<u>256,150</u>	<u>263,075</u>	<u>263,132</u>	<u>57</u>
Intergovernmental revenue:				
State revenue sharing:				
Sales and use tax	62,000	62,000	62,070	70
Liquor license	2,000	2,000	2,014	14
Total intergovernmental revenue	<u>64,000</u>	<u>64,000</u>	<u>64,084</u>	<u>84</u>
Charges for services:				
Equipment rental	42,800	61,000	65,158	4,158
Trash collection	55,600	55,400	55,763	363
Total charges for services	<u>98,400</u>	<u>116,400</u>	<u>120,921</u>	<u>4,521</u>
Interest and rentals:				
Interest	1,500	2,000	2,237	237
Civic Center and boat dock rental	1,600	6,000	6,089	89
Total interest and rentals	<u>3,100</u>	<u>8,000</u>	<u>8,326</u>	<u>326</u>
Other:				
Fish station	1,500	700	732	32
Water connection rebates	-	-	2,487	2,487
Police reimbursement	2,200	2,680	2,750	70
Miscellaneous	1,500	12,500	12,612	112
Fines	1,000	4,000	4,280	280
Zoning applications	3,300	2,200	2,200	-
Computer services	1,800	1,800	1,800	-
Total other	<u>11,300</u>	<u>23,880</u>	<u>26,861</u>	<u>2,981</u>
TOTAL REVENUES	<u>432,950</u>	<u>475,355</u>	<u>483,324</u>	<u>7,969</u>

(Continued)

**VILLAGE OF PORT AUSTIN, MICHIGAN  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
EXPENDITURES:				
Legislative:				
Board fee	14,000	11,700	11,630	70
General government:				
Salaries - clerical	39,495	39,850	39,809	41
Office supplies and expense	5,000	5,000	5,767	(767)
Professional fees	13,600	9,000	6,507	2,493
Mileage and training	200	-	-	-
Promotions	-	345	345	-
Printing and publishing	1,000	600	629	(29)
Computer expenses	1,000	700	580	120
Dues and subscriptions	900	600	586	14
Clerk	1,200	1,200	1,200	-
Treasurer	3,750	3,750	3,750	-
Building and zoning office expense	250	250	271	(21)
Ambulance subsidy	1,850	3,685	3,685	-
Special events and decorations	1,000	1,000	1,000	-
Ordinance updating	10,500	10,400	-	10,400
Miscellaneous	500	300	220	80
Total general government	80,245	76,680	64,349	12,331
Public buildings and grounds:				
Salaries	36,000	40,000	41,452	(1,452)
Telephone	1,500	1,625	1,624	1
Fire hydrant rental	5,500	4,800	8,889	(4,089)
Heat, lights and water	18,000	18,000	19,584	(1,584)
Repairs and maintenance	4,000	2,000	1,101	899
Materials and supplies	2,000	2,000	1,861	139
Fish cleaning station	1,000	1,200	1,183	17
Boat docks	-	652	651	1
Equipment rental	8,500	20,000	19,600	400
Miscellaneous	2,500	500	269	231
Total public buildings and grounds	79,000	90,777	96,214	(5,437)
Public safety:				
Salaries	60,000	58,000	58,544	(544)
Gasoline and oil	2,000	2,800	2,756	44
Materials and supplies	4,900	1,950	1,652	298
Office supplies	1,000	1,100	1,181	(81)
Telephone	850	880	900	(20)
Unemployment reimbursement	300	30	29	1
Capital outlay	700	575	564	11
Total public safety	69,750	65,335	65,626	(291)

(Continued)

**VILLAGE OF PORT AUSTIN, MICHIGAN  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006  
(CONTINUED)**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
EXPENDITURES: (Continued)				
Public works:				
Salaries	15,000	16,000	16,362	(362)
Street lighting	24,000	29,000	29,207	(207)
Materials and supplies	150	200	180	20
Trash pickup	35,280	35,280	35,235	45
Drain assessments	4,000	3,700	3,624	76
Miscellaneous	250	100	67	33
Total public works	<u>78,680</u>	<u>84,280</u>	<u>84,675</u>	<u>(395)</u>
Recreation:				
Salaries and wages	15,500	9,100	9,333	(233)
Equipment rental	10,000	11,000	10,746	254
Repairs and maintenance	2,500	600	599	1
Heat, lights and water	2,000	2,000	1,844	156
Materials and supplies	2,800	3,450	3,356	94
Miscellaneous	100	-	-	-
Total recreation	<u>32,900</u>	<u>26,150</u>	<u>25,878</u>	<u>272</u>
Other:				
Insurance and bonds	11,500	11,800	11,385	415
Employee benefits	40,465	41,715	39,003	2,712
Total other	<u>51,965</u>	<u>53,515</u>	<u>50,388</u>	<u>3,127</u>
Equipment:				
Salaries	2,500	5,000	3,826	1,174
Materials and supplies	600	2,000	1,837	163
Repairs and maintenance	2,500	2,500	1,931	569
Equipment rental	500	1,000	996	4
Gasoline and oil	4,000	6,000	6,232	(232)
Capital outlay	-	1,200	1,194	6
Miscellaneous	75	50	15	35
Total equipment	<u>10,175</u>	<u>17,750</u>	<u>16,031</u>	<u>1,719</u>
TOTAL EXPENDITURES	<u>416,715</u>	<u>426,187</u>	<u>414,791</u>	<u>11,396</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>16,235</u>	<u>49,168</u>	<u>68,533</u>	<u>19,365</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	11,000	11,000	11,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>11,000</u>	<u>11,000</u>	<u>11,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>27,235</u>	<u>60,168</u>	<u>79,533</u>	<u>19,365</u>
FUND BALANCE - BEGINNING OF YEAR	259,800	259,800	259,800	-
FUND BALANCE - END OF YEAR	<u>\$ 287,035</u>	<u>\$ 319,968</u>	<u>\$ 339,333</u>	<u>\$ 19,365</u>

**VILLAGE OF PORT AUSTIN, MICHIGAN  
BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes	\$ 42,800	\$ 43,500	\$ 43,692	\$ 192
Intergovernmental revenue:				
State winter maintenance	2,000	2,100	2,131	31
Trunkline maintenance	1,700	1,800	1,823	23
Gas and weight tax	38,000	41,000	43,362	2,362
State grants	2,700	2,900	2,922	22
Interest	600	850	912	62
TOTAL REVENUES	<u>87,800</u>	<u>92,150</u>	<u>94,842</u>	<u>2,692</u>
EXPENDITURES:				
Routine maintenance	36,700	7,125	5,825	1,300
Traffic services	750	200	245	(45)
Snow and ice control	5,100	8,150	7,089	1,061
Trunkline sweeping and flushing	4,240	4,940	4,893	47
Trunkline snow and ice control	3,820	6,900	6,075	825
Administrative	1,400	2,000	1,990	10
TOTAL EXPENDITURES	<u>52,010</u>	<u>29,315</u>	<u>26,117</u>	<u>3,198</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>35,790</u>	<u>62,835</u>	<u>68,725</u>	<u>5,890</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(9,500)	(9,500)	(10,027)	(527)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,500)</u>	<u>(9,500)</u>	<u>(10,027)</u>	<u>(527)</u>
NET CHANGE IN FUND BALANCE	<u>26,290</u>	<u>53,335</u>	<u>58,698</u>	<u>5,363</u>
FUND BALANCE - BEGINNING OF YEAR	165,655	165,655	165,655	-
FUND BALANCE - END OF YEAR	<u>\$ 191,945</u>	<u>\$ 218,990</u>	<u>\$ 224,353</u>	<u>\$ 5,363</u>



**VILLAGE OF PORT AUSTIN, MICHIGAN  
BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes	\$ 42,500	\$ 43,500	\$ 43,692	\$ 192
Intergovernmental revenue:				
Gas and weight tax	17,500	18,500	18,994	494
Interest	1,200	1,600	1,628	28
TOTAL REVENUES	<u>61,200</u>	<u>63,600</u>	<u>64,314</u>	<u>714</u>
EXPENDITURES:				
Routine maintenance	49,500	57,800	54,114	3,686
Snow and ice control	6,625	10,800	12,350	(1,550)
Traffic services	-	-	-	-
Administrative	1,400	2,000	1,990	10
Capital outlay	-	500	-	500
TOTAL EXPENDITURES	<u>57,525</u>	<u>71,100</u>	<u>68,454</u>	<u>2,646</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,675</u>	<u>(7,500)</u>	<u>(4,140)</u>	<u>3,360</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	9,500	9,500	10,027	527
TOTAL OTHER FINANCING SOURCES (USES)	<u>9,500</u>	<u>9,500</u>	<u>10,027</u>	<u>527</u>
NET CHANGE IN FUND BALANCE	<u>13,175</u>	<u>2,000</u>	<u>5,887</u>	<u>3,887</u>
FUND BALANCE - BEGINNING OF YEAR	174,482	174,482	174,482	-
FUND BALANCE - END OF YEAR	<u>\$ 187,657</u>	<u>\$ 176,482</u>	<u>\$ 180,369</u>	<u>\$ 3,887</u>

#### **OTHER SUPPLEMENTARY INFORMATION**

VILLAGE OF PORT AUSTIN, MICHIGAN  
BALANCE SHEET  
COMPONENT UNIT  
FEBRUARY 28, 2006

VILLAGE OF PORT AUSTIN, MICHIGAN  
RECONCILIATION OF THE COMPONENT UNIT FUND BALANCE TO  
NET ASSETS OF THE COMPONENT UNIT  
FEBRUARY 28, 2006

DOWNTOWN  
DEVELOPMENT  
AUTHORITY

ASSETS

Cash	\$ 2,921
Property taxes receivable	34,840
TOTAL ASSETS	<u>\$ 37,761</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:	
Accounts payable	\$ 1,735
TOTAL LIABILITIES	<u>1,735</u>
FUND BALANCE:	
Unreserved	36,026
TOTAL FUND BALANCE	<u>36,026</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 37,761</u>

Total fund balance - component unit	\$ 36,026
Amounts reported in the statement of net assets for the component unit are different because:	
Capital assets used are not financial resources and therefore are not reported as assets in the component unit.	1,009,050
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(213,109)
Some property taxes will be collected more than 60 days after year-end. They are not considered available to pay for the current period's expenditures, and therefore are not recorded as revenue in the governmental funds.	20,506
Net assets of the component unit	<u>\$ 852,473</u>

VILLAGE OF PORT AUSTIN, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
COMPONENT UNIT  
FOR THE YEAR ENDED FEBRUARY 28, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY
REVENUES:	
Property taxes	\$ 110,651
Donations	21,000
Interest	11
TOTAL REVENUES	<u>131,662</u>
EXPENDITURES:	
Gallup Park pavilion	45,065
Baseball diamond upkeep	2,800
Business promotion	1,200
Streetscape maintenance	553
Other	136
TOTAL EXPENDITURES	<u>49,754</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>81,908</u>
OTHER FINANCING SOURCES (USES):	
Operating transfers out	(82,080)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(82,080)</u>
NET CHANGE IN FUND BALANCE	<u>(172)</u>
FUND BALANCE - BEGINNING OF YEAR	36,198
FUND BALANCE - END OF YEAR	<u>\$ 36,026</u>

VILLAGE OF PORT AUSTIN, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF THE COMPONENT UNIT TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2006

Total net change in fund balance - component unit	\$ (172)
Amounts reported in the statement of activities for the component unit are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(9,927)
Repayment of loans is an expenditure in the component unit but reduces long-term liabilities in the statement of net assets.	60,042
Revenues are recorded in the statement of activities when earned; they are not reported in the governmental funds unless collected or collectable within 60 days of year-end. This is the net change in property taxes receivable.	65
Change in net assets of governmental activities.	<u>\$ 50,008</u>

# BRINING & NARTKER, P.C.

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August 2, 2006

Village Council  
Village of Port Austin  
Port Austin, Michigan 48467

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Village of Port Austin for the year ended February 28, 2006, and are submitted for your evaluation and consideration. We would like to emphasize that, since our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

## **Capitalization Policy**

The process of implementing GASB Statement No. 34 requires a conversion from the fund financial statements to the government-wide financial statements. Capital assets are one of the items for which the accounting treatment differs between these two types of statements. For purposes of the government-wide statements, capital assets, which include buildings and equipment, are defined as being tangible in nature with an estimated useful life of two or more years and an original cost over a specified dollar threshold (e.g. \$1,000 or \$2,000). The cost of these capital assets is recorded in the government-wide statement of net assets and depreciated over the estimated useful life of the asset whereas the cost is treated as a current year expenditure for purposes of the fund financial statements.

We recommend that the Council adopt a capitalization policy that defines the criteria for recording a capital asset. This policy should include a dollar threshold over which the cost of an asset would be capitalized and the estimated useful lives for the various types of assets owned/used by the Village.

We wish to take this opportunity to thank the officials with whom we have worked for the cooperation we received throughout our audit. As always, our firm will be happy to assist in implementing any recommendations approved by the Council.

  
Brining & Nartker, P.C.  
Certified Public Accountants